

VZCZCXRO3918

PP RUEHAG RUEHAST RUEHDA RUEHDBU RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA  
RUEHLN RUEHLZ RUEHNP RUEHPOD RUEHROV RUEHRS RUEHSR RUEHVK RUEHYG  
DE RUEHRK #0075/01 1100909  
ZNR UUUUU ZZH  
P 200909Z APR 09  
FM AMEMBASSY REYKJAVIK  
TO RUEHC/SECSTATE WASHDC PRIORITY 4050  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE  
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 02 REYKJAVIK 000075

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [IC](#)

SUBJECT: ICELAND'S GOVERNMENT FEELING SECURE WITH ONE WEEK BEFORE  
ELECTIONS

11. (U) Summary: Polls continue to show Iceland's leftist minority government with a strong lead one week ahead of national elections on April 25. Though the official campaign may be less than a full week due to an opposition filibuster that has kept parliament in session, the Social Democratic Alliance and Left-Green Movement are increasingly acting like they will get a renewed mandate. Adding to Independence Party woes is the fallout from news of extremely large (by local standards) political donations in 2006 on the eve of new campaign finance limits. The damage is forcing the IP to consolidate support from its base, rather than make an attempt to pose a credible challenge to what would be Iceland's first leftist majority government. At the same time, unease over the donations scandal will mean the new government will have work to do in reestablishing public confidence in the political system. End Summary.

12. (U) Although the Icelandic Althingi (parliament) continues to meet, the government coalition parties are gaining confidence with just over a week before national elections on April 25. A filibuster by the opposition Independence Party over constitutional amendments has kept the Althingi in session closer to the date of elections than at any other time in Icelandic history, but polling data seems to show that the Social Democratic Alliance and Left-Greens have not been damaged by the shortened campaign.

13. (U) The country's leading newspapers published their latest poll results on April 16 and 17. Despite measuring significantly different levels of support for the conservative Independence Party, both polls show that the current SDA-LG minority government would hold a majority in the Althingi. Frettabladid's April 16 poll results showed the SDA and LG with 32.2 and 25.7 percent, respectively, while Morgunbladid's Gallup poll released on April 17 had the two parties at 30.7 and 28.2 percent. Independence supporters found something to cheer in the Frettabladid results showing 27.3 percent support, which implied that a campaign finance scandal has done little harm to the party. However, the next day's Gallup poll showed the IP dropping to 23.3 percent nationwide, down from 36.6 in the 2007 elections.

14. (U) Variances aside, the polls were in agreement on three points. The new Citizens' Movement is inching closer to the 5 percent threshold needed to get an MP elected. Meanwhile, support for the Progressive Party continues to hold stagnant around seven percent, meaning that after an initial bounce the party's new leadership has made no inroads with the public. Finally, the idiosyncratic Liberal Party is in a quagmire at around one or two percent and is clearly not going to win any seats in parliament this year, meaning the party will probably be dissolved in the near future.

15. (SBU) Reflecting the news from the polls, leftist politicians have been increasingly upbeat in meetings with embassy officials in recent days. Debate now centers on whether or not the Left-Greens will suffer what has been a traditional collapse of support in the last days before national elections (in 2007, they lost 10 percent in the last month of the campaign). If the current numbers hold,

the IP could see itself fall to an historic low as Iceland's third-largest political party.

¶16. (U) Independence Party malaise has only deepened over the last week as news emerges regarding political donations made under Iceland's previous campaign finance regime. Easter weekend headlines were dominated by reports that in 2006 the IP accepted millions of ISK in donations from FL Group (ISK 30 million, \$238,000 at current exchange rates, or \$415,000 at the time) and Landsbanki (ISK 25 million/\$198,000/\$346,000) only a few days before Iceland's first campaign finance law took effect on January 1, 2007. Once the scandal broke on April 8, former IP chairman Geir Haarde immediately sent out a statement saying that he took full responsibility for accepting the donations, though many feel that Haarde was trying to shield the rest of the party from blame only two weeks before national elections.

¶17. (U) The fallout continued on April 10, when the party's Secretary General Andri Ottarsson resigned, although he claimed to have had no knowledge of the donations (Ottarsson was hired by the IP in mid-2006). MP and former Minister of Health Gudlaugur Thor Thordarson took the most heat, and he was forced to retract his categorical denials of any involvement. Reports have surfaced that put Thordarson at the center of IP fundraising efforts in late 2006, and he is said to have been pressured to resign from the Althingi or yield his seat at the top of one of the Reykjavik Constituency lists to a candidate less tainted by scandal. Thordarson's political position has since improved after a slate of his allies was re-elected to the leadership of the IP's Reykjavik chapter, and it is unlikely he will be leaving the stage.

¶18. (U) The other three major parties were quick to disclose information about where the sources of their donations in 2006. The

REYKJAVIK 00000075 002 OF 002

Progressive Party (PP), which was in government with the IP in 2006, initially claimed that privacy concerns prevented it from releasing information about its donors under the old law. It quickly relented and released a breakdown of ISK 23.5 million (\$187,000 at current exchange rates, or \$326,000 at the time) in donations that were over ISK 1 million each. Of those the largest donation was ISK 5 million from the contractor Eykt, and ISK 4 million from Kaupthing Bank. A third of the ISK 23.5 million came from companies associated with the so-called "S" group (a holding company made up of three leading insurance and retirement savings firms) and another third from large contractors and construction firms.

¶19. (U) The SDA's disclosures confirmed for many the party's close ties with the Baugur Group, long a bugaboo of the Independence Party. The SDA received a total of ISK 45 million (\$357,000 at current exchange rates, or \$625,000 at the time) in 2006. Donations over ISK 500 thousand amounted to ISK 36 million. Of those the largest donation was ISK 5 million from Kaupthing bank and ISK 4 million from Landsbanki. Of the ISK 36 million in large donations, 25 percent came from companies associated with the Baugur Group, and slightly smaller amounts from the S-Group and father-son investors Bjorgolfur Gudmundsson and Bjorgolfur Thor Bjrgolfsson, respectively.

¶110. (U) The LG issued a statement saying that the party's accounting had always been open to the public and that the largest donation in 2006 was ISK 1 million (\$8,000 at current exchange rates, or \$14,000 at the time), from the insurance company Samvinnutryggingar (one of the S-group companies).

¶11. (SBU) Comment: The campaign contributions scandal has taken a toll on the IP in the short term at least, according to the latest Gallup poll, but it remains to be seen whether brouhaha will remain fresh in the minds of voters on Election Day. Many wonder what hardcore IP supporters will do given their lack of alternatives on the right end of the spectrum. Rumors are swirling that many will turn in a blank vote rather than support a party that has failed to adequately deal with the past and has missed repeated opportunities to put forth a new generation of candidates. If IP support drops below 20 percent, the base's dissatisfaction will be clear. In these conditions, anything above 25 percent will be a relative

victory for new IP Chair Bjarni Benediktsson.

¶12. (SBU) Comment, cont'd: Many point out that the SDA and PP also received donations from large corporations, but not nearly as high as the IP. This has shielded them from taking the same level of criticism, although commentators wonder why the political parties do not disclose financial information reaching further back than 2006, which naturally begs the question of what there is to hide. The Citizen's Movement's jump in the polls may be a reflection of growing dissatisfaction with the party system and a sense that all of Iceland's parties are tainted. Although voters may put the SDA and LG back in power on April 25, they will have some work ahead of them to turn a sense of resignation into enthusiastic support for the government. End Comment.

VAN VOORST